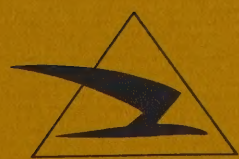


Annual Report
1967



SPARTAN

S P A R T A N
Air Services Limited
and its Subsidiaries

Annual Report

FOR THE YEAR ENDED OCTOBER 31, 1967

SUBSIDIARY COMPANIES

Sulmac Exploration Services Limited
Toronto, Canada

Velocity Surveys Limited
Calgary, Alberta

Spartan Air Services, S.A.
Buenos Aires, Argentina

Meridian Airmaps Limited
Lancing, England

DIRECTORS

D. W. McClarty

A. Englander

B. J. Kitchen

J. J. Glenny

W. L. Kitchen

D. D. Hague

W. P. McGill

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company

Toronto

Montreal

Winnipeg

Vancouver

To the Shareholders:

Introduction

This space has, in past reports, been devoted to informing shareholders of the history, philosophy and activities of the Company. These are constants in Spartan's past and future. Diversification and growth, within the overall concept of "Total Resource Engineering", continues to be the Company's major objective.

Although momentary delays and some hazards can be encountered along the way, the world's need for knowledge of its geography and resources, proper planning and management of the exploitation of these resources, and most important, planning the regeneration of renewable resources, is vital and in growing demand. It is this demand that the Spartan Companies endeavour to meet.

World conflict, international and national financial problems and, closer to home, the need to generate funds from operations and other sources in order to sustain Company growth, require constant vigilance. It is the firm conviction of your Directors and management, however, that despite temporary setbacks, the Company's commitment to the exploration of minerals and oil, the study of present land use and its potential productivity, the mapping of unexplored areas of the world, and all aspects of resource engineering, all essential to the inescapable fact of world population explosion, should continue to be the Company's prime objective.

Technology is providing new horizons in resource engineering. Space vehicles carrying sophisticated sensing devices open vistas unheard of only a few years ago. Your Company will stay abreast of the commercial applications of these developments.

Financial Results

Although the year under review was an active one and, under normal circumstances, would have reflected the growth and increased earnings consistent with prior years, the Company in fact suffered a series of setbacks, largely beyond the control of management.

The prime factor having a bearing on the reported consolidated earnings was the devaluation of the Argentine peso from .0050 to .0031 in terms of the Canadian dollar. This had the effect of substantially reducing the contribution of the Argentine subsidiary to the year's earnings, as well as reflecting adversely on the total sales reported. Similarly, although to a lesser degree, the devaluation of the British pound adversely affected both the sales volume and earnings reported. The devaluation occurred after the date of this report but prior to the actual audit; therefore by law, it had to be reflected in the 1967 statement.

Secondly, the Company's Canadian activities continued to be hampered by the lack of a conventional line of credit, and this made the financial operations of the Company extremely difficult. It was again necessary to resort to short-term, high-interest borrowing which had the effect of further reducing the net profit for the year.

Finally, your Directors, consistent with good accounting practice, decided to reserve against certain overdue accounts, and to effect inventory write-downs resulting from the disposal of obsolescent aircraft. It might be noted that during the year, an independent appraisal of all your Company's fixed assets in Canada was undertaken by Warnock-Hersey Limited and that their report indicates that the book value of the fixed assets is now a conservative one.

The end result of these factors is the rather disappointing earnings reported for the year. Your Directors feel, however, that the adjustments and corrections effected have been necessary and justified by the long-term advantages to be gained.

Employees

The total number of employees remains at approximately 700, most of whom are highly skilled technicians or professionals of recognized standing in their respective fields.

Shareholders

The number of shareholders of record at October 31, 1967, was 2,712, up some 347 from 1966.

The Year in Review

The year was marred by the death of Mr. W. G. E. Brown in a motor car accident while on Company business. Mr. Brown was the head of Spartan's Resource Development Department, and his unique background as a professional Forester and Agronomist, coupled with his talent for development of new business, made him a most valuable contributor to the success of your Company. Spartan has suffered a grievous personal loss.

During the year, the move of the Ottawa office into the new headquarters building at 2827 Riverside Drive, Ottawa, was completed and preparation was made for the move of the Accounting Branch and the corporate headquarters from Toronto to Ottawa. This latter move was effected subsequent to the year-end and is expected to facilitate more effective control, and ultimately to make possible a significant reduction in overhead.

Work has continued on the External Aid forestry contract in Kenya and on the topographical mapping project in Tanzania. Spartan also carried out a significant airborne geophysical contract in the Near East which involved production of magnetic intensity maps of an entire country for oil exploration. Despite the disturbed state of the Near East, the work was completed expeditiously and without undue incident.

In Canada, work continued on the Federal-Provincial magnetic programme. Contracts in Manitoba, Northwest Territories and Newfoundland were continued and work was started on a new three-year project in the Province of Quebec.

Domestic mapping projects included two new highway routes in the Yukon and Northwest Territories, which represents some 600 miles of the Government of Canada's Roads for Resources Programme; Spartan completed the aerial photography and soils survey of these routes in July-August and has started the actual mapping which is scheduled for completion early in 1968. Typical of Spartan's many urban mapping projects during 1967 has been the large-scale mapping of the entire City of Hamilton. Other major works have been carried out for the St. Lawrence Seaway Authority, Ontario Department of Highways and the Canadian National Railways. A new contract has been obtained for forest inventory in New Brunswick which will occupy the available forestry staff well into 1968.

Mining exploration tends to follow a fairly regular cycle and during 1967, the activity curve reached a nadir. Sulmac consequently experienced a decline in sales but managed to maintain at least a minimum level of business in Canada while continuing its major foreign project in Costa Rica.

Oil exploration, on the other hand, has continued to be reasonably active and Velocity has had a correspondingly good year. It has, in fact, been the most active in the history of that Company and sales were 25 percent better than during the previous year. This increased activity made it necessary to invest a further \$163,000 in equipment, which investment is, of course, reflected in the fixed assets figure and which added to the new funds required for the year's operation. Velocity was fortunate in being able to meet the corresponding increased demand for staff and to maintain its normal high level of professional competence.

Spartan S. A. in Argentina has continued to expand and the devaluation of the peso has had no adverse effect on that company's profitability in terms of Argentine currency. The major contracts during the year have continued to be with Government agencies. The mosaic programme in the Province of San Luis is being continued and another section of the cadastral survey and large-scale mapping of the Province of Mendoza has been completed. Work continues on other projects for the Federal Government and for the Provinces of Cordoba and Buenos Aires.

Meridian Airmaps in England has also had a good year. Its market continues to be largely with local authorities and with the British Railways, and to be almost exclusively mapping at the so-called engineering scales and other engineering tasks. The company has recently enlarged the scope of these engineering services to include the British Ministry of Transport's road design suites and it is also investigating direct computer graphics as applied to civil engineering design criteria generally. Meridian has a modern, well-equipped plant, and a highly skilled staff, and it operates in a stable market.

Outlook

In view of the unsettled state of the world, it is very difficult to see far into the future. However, the Canadian market appears to be reasonably stable and the emphasis of the Canadian Government and of United Nations agencies appears to be toward more, rather than less, aid to developing countries, particularly in the field of resources development. Although there will be some curtailment of Canadian Government expenditures in Canada during 1968, the indications are that the two major programmes which concern Spartan, i.e., aerial photography and airborne magnetic surveys, will not be adversely affected.

Following devaluation in Argentina, there appears to be renewed confidence in the economy of that country; all signs point to a higher level of activity and there would seem to be no foreseeable risk of any further devaluation. It is reasonable to expect that this more buoyant atmosphere will result in a sufficient increase in the work of your South American company to provide a profit level which will, in a comparatively short time, offset the effect of the recent devaluation. Consideration is being given to the possibility of revaluing our fixed assets in the Argentine in accordance with the devalued peso and thus to offset, in part at least, the book loss.

Meridian also expects a good year and looks forward to many years of steady, if unspectacular, growth.

Velocity expects 1968 to be a very good year and to surpass the record set in 1967. Sulmac, with the increasing volume of mining exploration available, and with management changes which have already been effected, should show a marked improvement. Recovery will be somewhat slower for the parent company but by the end of 1968, the economies and new policies which have been instituted will be reflected in increased earnings.

Presented on behalf of the Board.

D. W. McLarty,
President.

Spartan Air Services L

Consolidated Balance S

ASSETS

Current:

Cash.....	\$ 18,637	
Deposits and accounts receivable, less allowance for doubtful accounts.....	1,770,716	
Unbilled contract work—at selling price.....	231,912	
Work-in-process (Note 3).....	589,675	
Components, spare parts and miscellaneous supplies, at cost.....	365,989	
Prepaid expenses.....	274,628	\$3,251,557

Fixed, (at cost):

Land.....	38,913	
Aircraft and aerial cameras.....	2,034,905	
Other equipment.....	2,828,994	
Buildings on leasehold land.....	198,950	
Leasehold improvements.....	11,197	
	5,112,959	
Less: Accumulated depreciation and amortization.....	2,861,890	2,251,069

Organization and finance expense, less amortization.....	111,619
Excess of the cost of investment in subsidiaries over the book value of their net assets....	235,154

\$5,849,399

Approved on behalf of the Board:

"F. C. McCONNELL", Director.

"D. W. McLARTY", Director.

ted and Its Subsidiaries

t as at October 31, 1967

LIABILITIES

Current:

Bank advances (partially secured).....	\$ 184,611	
Accounts payable and accrued liabilities.....	1,085,370	
Loans payable (Note 4).....	519,285	
Income taxes payable.....	12,006	
Current instalments of funded debt and other long-term liabilities	325,545	
Advance payments on government contracts.....	451,918	\$2,578,735

Funded debt and other long-term liabilities (Note 5).....	1,007,712	
Less: Instalments included with current liabilities.....	325,545	682,167
Minority interest in a subsidiary.....		28,306

SHAREHOLDERS' EQUITY

Capital Stock:

Authorized:

- 1,350 6% Cumulative Class "A" preferred shares of a par value of \$100 each, redeemable at par.
- 8,500 6% Cumulative Class "B" preferred shares of a par value of \$100 each, redeemable at par, less 457 shares purchased for redemption and cancelled.
- 4,000,000 Common shares of no par value (Notes 7, 8 and 12)

Issued and fully paid:

1,350 Class "A" preferred shares (Note 9).....	135,000
2,527,015 Common shares (Note 10).....	3,083,555

	3,218,555	
Deficit (Note 11).....	658,364	2,560,191
		<u>\$5,849,399</u>

The notes to the consolidated financial statements are an integral part of this statement.

Spartan Air Services Limited and Its Subsidiaries

Consolidated Statement of Earnings For the Year Ended October 31, 1967

Sales.....		\$9,324,473
Operating costs.....		8,438,482
Profit before taking into account the following items.....		885,991
Depreciation and amortization of fixed assets.....	\$434,737	
Amortization of organization and finance expense.....	19,473	
Interest on funded debt and other long-term liabilities.....	46,750	
Legal fees.....	16,512	
Remuneration of executive officers including subsidiaries.....	167,567	
Minority interest in earnings of subsidiary.....	36,653	
	721,692	
Less: Miscellaneous income.....	11,560	710,132
		175,859
Net overprovision for income taxes.....		17,890
Net profit.....		<u>\$ 193,749</u>

Consolidated Statement of Deficit For the Year Ended October 31, 1967

Balance, November 1, 1966.....	\$ 360,770
Add:	
Adjustment to prior year sales.....	41,057
	401,827
Less:	
Net profit.....	193,749
	208,078
Add:	
Unrealized loss on exchange on conversion of accounts of foreign subsidiaries.....	450,286
	<u>\$ 658,364</u>

The notes to the consolidated financial statements are an integral part of this statement.

AUDITORS' REPORT

To the Shareholders of
SPARTAN AIR SERVICES LIMITED

We have examined the consolidated balance sheet of Spartan Air Services Limited and its subsidiaries as at October 31, 1967, and the consolidated statements of earnings and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and deficit present fairly the consolidated financial position of the company and its subsidiaries as at October 31, 1967, and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HARBINSON, GLOVER & CO.,
Chartered Accountants

Toronto, Ontario,
February 23, 1968.

Notes to Consolidated Financial Statements as at October 31, 1967

Note 1. The consolidated statements include Sulmac Exploration Services Limited, Velocity Surveys Limited, Badger Drilling Co. Ltd., and Spartan Air Services S.A. wholly owned subsidiaries and 51% of Meridian Airmaps Limited. There are other subsidiaries not consolidated which are inactive and are valued at \$1.00 each.

Note 2. The accounts of Spartan Air Services S.A. are included in the consolidated balance sheet at the rate of exchange of \$.0031 Canadian to 1 (one) Argentine peso with the exception that (a) fixed assets, incorporation expense and depreciation provision are converted at the rates of exchange effective at the dates of acquisition and (b) income and expenses other than depreciation at the average rates of exchange in effect during the nine months. The accounts of Meridian Airmaps Limited are included in the consolidated statements at the rate of exchange of \$2.65 Canadian to £1 Sterling, with the exception that fixed assets, depreciation and income and expenses are converted at \$3.00 Canadian to £1 Sterling.

Note 3. Work-in-process:

At selling price less estimated profit margin.....	\$259,958
At cost.....	329,717
	<u>\$589,675</u>

Note 4. A loan of \$208,266 is secured by a specific assignment of accounts receivable. A loan of \$200,000 is secured by a debenture and a fixed and floating charge on the assets of the Company and Velocity Surveys Limited. A loan of \$75,000 is secured by a debenture and a fixed and floating charge on the assets of the Company and the shares of Velocity Surveys Limited have been pledged as security for the loan.

Note 5. Funded debt and other long-term liabilities include the following obligations:

Notes payable under conditional sales contracts— (maturing 1967-1971).....	\$ 421,692
Bank loans of Meridian Airmaps Limited (secured).....	66,000
Mercantile Financial Corporation loan (secured)—Note 6.....	520,020
	<u>\$1,007,712</u>

Note 6. The loan due to The Mercantile Financial Corporation, secured by a debenture and a fixed and floating charge on the assets of the Company, Sulmac Exploration Services Limited and Velocity Surveys Limited provides for the following payments—\$11,375 U.S. monthly, which includes interest calculated at 13%, maturing on July 3, 1972.

Note 7. During the period the Company obtained supplementary letters patent increasing the authorized common share capital from 3,000,000 to 4,000,000 common shares of no par value by the creation of an additional 1,000,000 common shares of no par value ranking pari-passu with the existing common shares.

Note 8. An executive bonus based on consolidated profits before taxes is in effect until February 1973. The executive has the option of taking payment of the bonus in cash or common stock. If an election is made for payment in stock the price per share is to be related to the selling price of the Company's shares on the Canadian Stock Exchange at the end of the fiscal year to which the bonus applies.

Note 9. Dividends aggregating \$81,000 on the Class "A" preferred shares are in arrears for the fiscal years 1958 to 1967, inclusive. Under the rights and privileges attached to those shares, each share carries the right to 100 votes when dividends are in arrears for two or more years.

Note 10. During the year 100,000 common shares were issued for cash of \$50,000 and 40,000 common shares were issued in payment of an executive bonus valued at \$14,612.

Note 11. Included in the deficit account is a contributed surplus of \$147,768 and a capital surplus of \$45,700 being an appropriation set aside under The Canada Corporations Act, section 61 (4). There were no changes in these items during the year.

Note 12. The Company has entered into an agreement granting an option on 500,000 common shares at \$1 per share upon the optionee lending a minimum of \$250,000 to the Company and an option on an additional maximum 200,000 common shares at \$1 per share, upon the optionee lending additional money, at the rate of two shares for each \$1 loan. Such options are subject to obtaining the approval of the Canadian Stock Exchange and the Quebec Securities Commission which approvals have not been obtained to date. In December 1967 the Company borrowed \$200,000 from the aforementioned optionee such loan is secured by a debenture and fixed and floating charge on the assets of the Company.

Note 13. The Company and its subsidiaries have entered into agreements to lease properties for various periods up to 99 years. The net rentals for the next five years will be approximately \$102,000 per year.

